

EXAMPLES OF COMPETITIVE BEHAVIOR THAT MAY TRIGGER A DOT INVESTIGATION OF UNFAIR EXCLUSIONARY PRACTICES

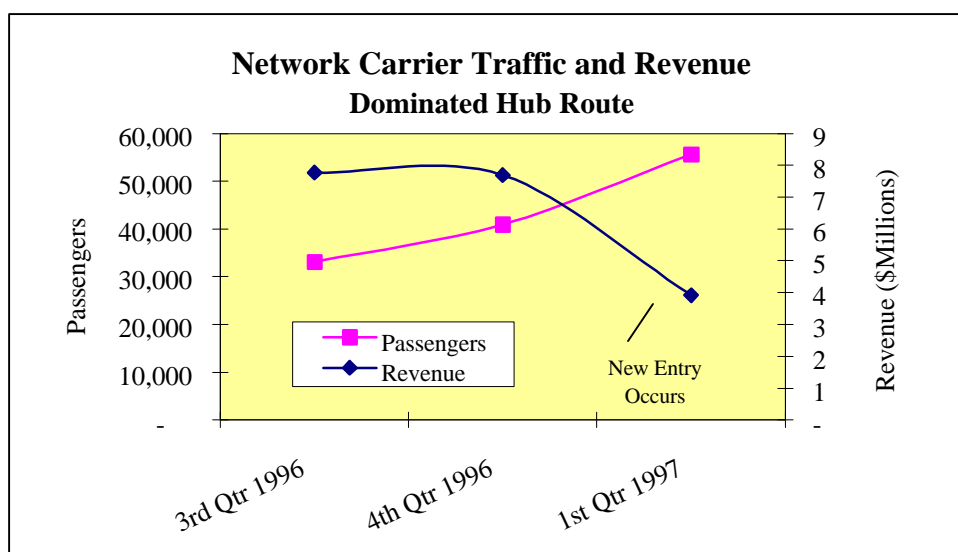
Example 1:

This example shows a network carrier's response to low-fare entry into a 394-mile city-pair market. When the low-fare competitor entered the dominated hub market in the first quarter of 1997, the incumbent network carrier sold over 46,000 seats for less than \$75, over six times the total number of seats sold by the low-fare competitor. Much of the network carrier's under-\$75 passenger traffic was self-diverted from the higher fare levels usually charged. Note on the chart below the drop in network carrier passengers flying in the \$351 to \$425 range.

Passengers	One-Way Fare	3 rd Qtr 1996	4 th Qtr 1996	1 st Qtr 1997
New Entrant	Under \$75	-	-	7,290
	Total	-	-	9,120
Network Carrier	Under \$75	850	11,160	46,580
	\$351-\$425	13,130	9,720	910
	Total	33,030	40,960	55,700

The self-division of passengers to lower fare levels resulted in a revenue decline of 50% over the three-quarters examined, in spite of traffic stimulation.

Revenue (\$000)	One-Way Fare	3 rd Qtr 1996	4 th Qtr 1996	1 st Qtr 1997
Network Carrier	Under \$75	44	509	2,043
	\$351-\$425	4,931	3,901	369
	Total	7,763	7,692	3,919



The major airline responded to low-fare entry at its hub by flooding the market with low fare seats to the extent that its local revenues actually declined in spite of traffic growth.

Example 2:

In a second example, the incumbent network carrier in a 460 mile dominated hub route began increasing low fare sales during the second quarter of 1996 in response to a low-fare competitor. The low-fare carrier provided only connecting service during the first three quarters on 1996 compared with ten daily nonstop roundtrips offered by the network incumbent. When the new entrant introduced limited nonstop service in the fourth quarter, the established carrier added an additional two nonstop roundtrips a day, increasing its capacity by almost 30 percent. Low fare sales on the incumbent carrier, which were boosted by self-diversion from higher fare categories, increased by 789 percent over the same quarter in the previous year.

Passengers	One-Way Fare	1st Qtr 1996	2nd Qtr 1996	3rd Qtr 1996	4th Qtr 1996	1st Qtr 1997
New Entrant	Under \$75	7,650	8,310	6,640	7,930	8,350
Network Carrier	Under \$75	6,310	16,180	29,490	58,490	52,080
	\$150+	43,370	33,140	32,060	25,770	17,210
	Total	68,620	69,660	82,820	97,400	84,050

The shift in traffic from high fare categories to low resulted in a 22 percent decrease in network carrier revenue between the first quarters of 1996 and 1997, in spite of a 22 percent increase in traffic over that time period. Seats sold by the network carrier for less than \$75 in the first quarter of 1997 exceeded the entire market capacity of the low-fare competitor.

Revenue (\$000)	One-Way Fare	1st Qtr 1996	2nd Qtr 1996	3rd Qtr 1996	4th Qtr 1996	1st Qtr 1997
Network Carrier	Under \$75	368	973	1,698	3,461	2,973
	\$150+	7,845	5,909	6,178	5,000	3,501
	Total	10,143	8,897	9,964	9,802	7,862

Example 3:

This example shows a network carrier's response to low-fare entry into a 450-mile city-pair market. During the first two quarters of service by the new entrant the established carrier did not increase its sales of low-fare seats, and while its traffic declined some compared with the same quarter of the previous year, its revenue changed very little. However, during the third quarter of 1996 the established carrier greatly expanded its capacity and increased the number of seats it sold compared to the previous year by almost half. Because the vast majority of the seats sold that quarter were at extremely low fares, the established carrier's revenue dropped by about one-third. Following the new entrant's exit from the market the next quarter, the established carrier sold fewer seats at low fares than it had prior to the new entrant's arrival, and resumed selling a large proportion of its tickets at even more expensive fare levels.

The established carrier's average fares of about \$190 before entry by the low-fare airline rose to just under \$250 two quarters after the new entrant departed the market. The established carrier charged an average fare of only \$80 during the third quarter of 1996, when the new entrant was a competitor.

Passengers		1st Qtr 1996	2nd Qtr 1996	3rd Qtr 1996	4th Qtr 1996	1st Qtr 1997
New Entrant	\$50-\$75	11,770	18,470	11,990	-	-
Network Carrier	\$50-\$75	1,220	1,360	49,760	27,100	910
	\$325-\$350	10,730	12,890	710	1,380	3,130
	\$375-\$400	400	430	690	5,110	12,260
	Total	31,960	43,520	67,060	62,450	36,670
% Change-Previous Year		(15)%	(6)%	48%	38%	15%

Revenue (000s)		1st Qtr 1996	2nd Qtr 1996	3rd Qtr 1996	4th Qtr 1996	1st Qtr 1997
Network Carrier	\$50-\$75	84	88	3,085	1,874	57
	\$325-\$350	3,606	4,408	242	467	1,059
	\$375-\$400	155	169	265	1,967	4,734
	Total	7,356	8,951	5,607	9,087	9,093
% Change-Previous Year		3%	(4)%	(35)%	4%	24%

Example 4:

In this example, a low-fare carrier entered a city-pair market served by two established carriers. Before low-fare new entry, a very large proportion of passengers for both of the established airlines paid very high prices, which accounted for an even larger proportion of their respective local revenues. By the second quarter after low-fare entry, the established carriers sold very large numbers of seats at low fares. As a consequence of doing this, they sold virtually no seats at the high fares they charged before new entry, and while the number of local passengers they each carried increased dramatically, their revenues did not. Each of the established carrier's revenues declined sharply before they returned to their pre-new entrant practice of selling large numbers of seats at high prices.

Passengers	One-Way Fare	4th Qtr 1995	1st Qtr 1996	2nd Qtr 1996	3rd Qtr 1996	1st Qtr 1997
New Entrant	Under \$100	-	9,100	8,460	-	-
	Total	-	9,120	8,490	-	-
Network Carrier 1	Under \$100	2,420	8,840	16,990	21,320	6,180
	\$226 - \$300	17,600	14,090	2,700	750	19,680
	Total	24,070	28,180	31,890	31,110	31,280
Network Carrier 2	Under \$100	1,700	7,240	22,060	14,860	4,710
	\$226 - \$300	7,030	4,740	420	330	9,860
	Total	10,740	15,490	28,310	21,380	17,380

Revenue (000)	One-Way Fare	4th Qtr 1995	1st Qtr 1996	2nd Qtr 1996	3rd Qtr 1996	1st Qtr 1997
Network Carrier 1	Under \$100	169	609	1,132	1,551	383
	\$226 - \$300	4,709	3,601	658	191	5,285
	Total	5,579	5,077	3,688	2,953	6,742
Network Carrier 2	Under \$100	110	469	1,415	964	273
	\$226 - \$300	1,879	1,216	105	86	2,626
	Total	2,369	2,255	2,320	1,855	3,461